Chairman Doug Ose
Opening Statement
"Driving Down the Cost of Filling Up"
July 7, 2004

During the first five months of 2004, gasoline prices rose nearly every week, peaking at a nationwide average of $2.05 per gallon. Gasoline prices in my district in California climbed even higher, hitting an astounding $2.30 on June 1st.

Thankfully, gasoline prices have begun to decline in recent weeks, bringing consumers and businesses much needed relief. With this respite, however, comes a critical juncture for policymakers: do we allow the issue of high gasoline prices to once again fade into the background, or do we actively seek to implement solutions that address the ever-increasing imbalance between gasoline supply and demand?

Over the last four years, as Chairman of the Government Reform Subcommittee on Energy Policy, Natural Resources and Regulatory Affairs, I have presided over four hearings on gasoline markets. These hearings focused on a myriad of issues, including the structure of fuel markets nationwide, regional supply and demand factors, and the effect of the transition from MTBE to ethanol in California. We found that there are some very real problems facing U.S. fuel markets. As gasoline prices begin to retreat from their recent highs and headlines, it is important that these issues do not fall by the wayside.

Since the cost of crude oil determines about 40 to 50 percent of the cost of a gallon of gasoline, we must first consider what can be done to reduce crude oil prices, which reached a record-setting $42 in June. Some have advocated that we cease filling the Strategic Petroleum Reserve (SPR). Others have gone a step further and have called for President Bush to drawdown the SPR. These proposed quick fixes have serious repercussions and may do little to help drive down prices at the pump. To ensure that Americans have a secure and affordable crude oil supply in the long-term, we must either significantly reduce our current demand or we must boost our domestic oil production.

Regardless of where future crude originates, to process it in the U.S., we must expand and enhance the petroleum infrastructure, which is stressed and at its limits. Addressing the operating constraints and bottlenecks within the entire infrastructure, including refineries, pipeline, storage tanks, and port facilities, is important because each component of the system must function properly to ensure that consumers receive an adequate and affordable supply of gasoline. We must look at ways to simplify the permitting processes and to reduce the burden and uncertainty of regulations so as to encourage infrastructure upgrades and expansions. Failure to do so could result in additional market volatility and unnecessary price spikes.

Lastly, we must begin to consider the cumulative affect of governmental regulations on gasoline supply and prices. Due to the dizzying array of Federal and State environmental regulations, there are approximately 60 different types of fuel in the U.S. For the most part, these blends cannot be interchanged; thus, certain regions are susceptible to artificial shortages and price spikes.

In California, overlapping Federal and State regulations have created a *de facto* ethanol mandate. This mandate results in a 10 percent reduction in gasoline supply for 8 months of the year and does not necessarily improve the air or water quality. At present, the Environmental Protection Agency (EPA) is considering an oxygen waiver request from California. If approved, this waiver would exempt California refineries from the Clean Air Act's 2 percent oxygen requirement, allowing them more flexibility to produce clean-burning gasoline. I continue to urge EPA to expeditiously grant this waiver.

Boutique fuels and mandates add complexity to the production, distribution, and storage of gasoline, thereby increasing volatility and prices. Rather than continuing to dictate exactly what goes into a gallon of gasoline, we should set high environmental and performance standards and allow the industry to meet them.

I look forward to the testimony of the witnesses. They include: Guy F. Caruso, Administrator, Energy Information Administration, Department of Energy (DOE); Mark R. Maddox, Acting Assistant Secretary for Fossil Energy, DOE; Jeffrey R. Holmstead, Assistant Administrator for Air and Radiation, EPA; William E. Kovacic, General Counsel, Federal Trade Commission; Jim Wells, Director, Natural Resources and Environment, General Accounting Office; Robert Slaughter, President, National Petrochemical and Refiners Association and on behalf of the American Petroleum Institute; Michael Ports, President, Ports Petroleum Company, Inc, and on behalf of the Society of Independent Gasoline Marketers and the National Association of Convenience Stores; Ben Lieberman, Senior Policy Analyst, Competitive Enterprise Institute; and, A. Blakeman Early, Environmental Consultant, American Lung Association.